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FISCAL SOCIOLOGY AND THE THEORY OF PUBLIC FINANCE. BY RICHARD E. WAGNER. CHELTENHAM, U.K.: EDWARD ELGAR, 2007.

Economic theories of the state have traditionally been divided into two camps under the headings of public finance and public choice (cf. Buchanan and Musgrave 1999). The public finance approach identifies the state with an omniscient social planner. Armed with the tools of microeconomic analysis and a knowledge of market conditions both actual and possible, the state intervenes fiscally (with taxation and subsidies) or with regulation to correct market failures or maximize tax revenues. The public choice approach, by contrast, identifies the state as an organization comprised of self-interested actors whose interventions are predicated on their own cost-benefit calculations. This latter perspective owes much to Austrian economics. Gordon Tullock, one of its pioneers, was inspired to analyze bureaucracy with the tools of economics after reading Mises's *Human Action*. The deployment of means in the pursuit of ends constitutes all human activity, in government as well as markets.

Richard Wagner's *Fiscal Sociology and the Theory of Public Finance* pushes the Austrian approach to social science further than previous economic analyses of the state. Subtitled "An Exploratory Essay," it reads more like a manifesto for a budding research program than an exposition of particular propositions. Over the course of eight chapters, Wagner outlines the contours of a theory of state activity. The orientation is self-consciously Mengerian (p. 41), but also draws on the broadly continental approach to public finance from the late nineteenth and early twentieth centuries (e.g., Wicksell, De Viti de Marco), as contrasted with the dominant British approach (e.g., Edgeworth, Pigou) that dominates mainstream public finance. And of course, though explicitly titled as a work in public finance, Wagner remains closer to the Virginia school of public choice that he helped develop and propagate.

The most striking and innovative aspect of the book—and the one most challenging to Austrians and libertarians alike—is the conceptualization of the state as a social space rather than an organization. That is, the state, like the market, is an arena in which individuals pursue their own purposes. Rejecting the dominant strand in both public finance and public choice that treats the state as intervening in a preexisting market order, Wagner paints the picture of a "two-forum societal architecture" (chap. 2) in which state and market interpenetrate one another. Market and fiscal phenomena alike find their origins in human nature. I wish to explore critically how these claims add up and how well they square with Austrian economics and libertarianism.

Wagner distinguishes between private property and public property, or commons. He takes a narrow view of private property, one that concerns only the sphere in which the individual is truly autonomous. As such, it cannot be all-encompassing in any society. My right to trade or not trade may be private, but your right to offer me a trade relies on some common medium by which you can contact me. Furthermore, effective (rather than merely normative) property claims depend on the forbearance of others; as such, "private property can only operate within a medium of common property" (p. 43).

Recognizing the impossibility of a purely private social order does not entail any logical or temporal priority of public property. Rather, the two are coeval, corresponding to two fundamental human desires for autonomy and solidarity (pp. 41–46). Autonomy denotes the pursuit of ends by economizing on the use of physical things. Solidarity denotes the pursuit of ends in which other people and relationships with them are the objects of economizing activity. In dubbing this impulse "solidarity," Wagner bestows no romantic veneer: it includes desires to compete with others, meddle in their affairs, and even coerce them for one's own ends. In other words, in contrast to standard economic models, individuals take an active interest in one another. Actions motivated by solidarity always involve some sort of commons. Interest in the actions and beliefs of others necessarily forecloses complete autonomy in the disposal of means over ends.

This dichotomy between public and private radically diverges from the traditional theory of public goods, and in a thoroughly Austrian direction. Economists usually predicate public goods arguments on technological considerations such as non-rivalry and non-excludability. From their lofty, hypothetical perch, they surmise that in the absence of such difficulties individuals would be willing to pay for such services, thus justifying interventions to correct market failures. Wagner, by contrast, defines the commons in a purely subjectivist manner. Public economics begins with the demonstrated preferences of individuals concerning their relationships with others. Public character is a "fact of the social sciences" (Hayek 1943) determined not by some objective characteristic of a good or service but in the way individuals treat it. A smoke stack polluting my neighbor's land is not a matter of public economics until my neighbor raises a complaint. Conversely, a technologically excludable and rival good is the subject of public economics whenever its provision is funded by coercive means (p. 25).

From this basic distinction Wagner goes on to depict what he calls a "two-forum societal architecture" (chap. 3), in which the market and the state are two interconnected arenas of activity. Market decisions, though they reach across the commons, are governed by freedom of contract and free entry. Their outcomes thus correspond to autonomous action. State decisions instead occur within the commons. "State" is then treated as a universal feature of social order, an arena in which particular governments of various forms can come and go (pp. 49–50). Just as in the market, individuals pursue their own, frequently contradictory ends in the commons. A heterogeneous array of organizational enterprises, from legislatures to bureaucracies, thus inhabits this space.

On the surface, this vision of society appears fundamentally at odds with basic features of libertarianism, especially the anarchist variety. If the state is an arena which different organizations inhabit, does it even make sense to complain about a monopoly of coercion? Even more troubling is the identification of the state as a universal feature of society rooted in human nature. Wagner's definitions seem to trap us between one of two poles: either the world is inherently and universally anarchic, or anarchy is simply a theoretical impossibility. Either way, he seems to be categorically denying the traditional Weberian definition of the state.

Such concerns are not baseless, and I am not arguing that economists should jettison their traditional approach to the state. A serious quibble with Wagner's definitions is the violence they do to accepted usage of terms such as "state." It is unclear why terms such as "public" or "commons" would not have sufficed to describe the arena in which solidarity plays out. Enterprises that would bear the mantle of the "state" certainly occupy the commons, but not exclusively. Wagner notes that activity within markets includes public elements (p. 17). He also recognizes that governmental organizations tend toward hierarchical relationships (pp. 158–59). From both fronts, then, an identification of the state with the commons is problematic.

A better rendering of the traditional sense of "state" in his system might be *a network of hierarchically organized enterprises that dominates the legal stewardship of the commons*. By dominion, I mean neither that the state controls all of the commons, nor that such control is absolute. Rather, it entails that freedom of entry into legal adjudication within the commons is effectively curtailed. Working with this definition, Wagner's framework of a two-forum societal architecture thus clarifies the significance of *private* adjudication. In a society with a state, private adjudication may exist for contractual relations *without* nullifying our common sense notion that the state has a monopoly of coercion. The key is the exercise of legal dominion *within* the commons, where contractual relations are absent but individuals still interact. For example, criminal activity falls strictly within the commons: the criminal takes an interest in his victim that *does not* respect the victim's sphere of autonomy. The state does claim a monopoly over adjudicating such disputes, while private courts that deal with pre-existing contractual relations—which take the individual's sphere of autonomy for granted—are allowed to persist.

It should be emphasized that these disputes are more terminological than substantive. Wagner's simplified market-state dichotomy does the job it was intended for, which is to analyze fiscal phenomena (p. 46). In terms of monetized activities, a dichotomy between contractual-private and coercive-public performs admirably. He eviscerates any notion that state budgets are centrally planned in response to market outcomes.

Rather than modeling individuals as simply self-interested, rational choosers, Wagner again takes a thoroughly Austrian tack and includes entrepreneurship in his account of agency. Entrepreneurship is the part of action that deals with man's attempts to forecast the future and project plans into it that advance his purposes. It is not an institutional reality but a universal feature of action, and as such applies in both the market and the public square. With this full-blooded praxeology in hand, Wagner depicts social order as an ecology of interconnected plans that originate from the market square and the public square alike (chaps. 4–5). Private enterprises engage in production and exchange, while public enterprises also take in and disperse tax revenue. Out of this ecology of intersecting plans—some complementary, some rivalrous— emerge fiscal patterns of taxation and expenditure (chap. 6). They spring from a spontaneous, decentralized process rather than the brow of an omniscient technocrat.

These conclusions will disappoint economists searching for techniques to improve fiscal efficiency. Wagner makes no apologies for this, consciously rejecting the "systems design" paradigm of research for an "inside-out" approach that renders social phenomena intelligible in terms of human purposiveness (chap. 1). With entrepreneurship included, however, human agency is dynamic and creative rather than static and computable. Moreover, creativity on the level of action creates open-endedness in all social spheres. He thus rejects the classic Hayekian dichotomy whereby the market is an open-ended order and the state an organization (Hayek 1973). The emergent phenomena of the state are, on net, equally unplanned. The net result of this inside-out, emergent approach that takes creativity seriously is to shift the focus of economics away from particular outcomes and towards examining the institutions within which individuals act and interact (p. 17).

The analytic apparatus laid out in *Fiscal Sociology* meticulously avoids value judgments.[1] Wagner levels critiques both at the pretensions of social engineers and illusions that government serves no human purposes. His aim in doing so is not to hew to some middle-of-the-road position, but to put forward an account of state activity in terms of the demonstrated, subjective preferences of those who engage in it. Allowing either interventionist or libertarian sensibilities to interfere with that process would undermine its scientific objectivity and the tenets of subjectivism:

> [I]t is in this subjectivism that the objectivity of our science lies. Because it is subjectivistic and takes the value judgments of acting man as ultimate data not open to any further critical examination, it is itself above all strife of parties and factions, it is indifferent to the conflicts of all schools of dogmatism and ethical doctrines, it is free from valuations and preconceived ideas and judgments, it is universally valid and absolutely and plainly human. (Mises 1996, p. 22)

The value of a value-free Austrian approach to the state should not be understated. In addition to its scientific merit, an honest appraisal of the nature of the state compels libertarian scholars to ask the right questions: comparative institutional questions about private property, the commons, and the relationships between the two. It is not enough to show that markets generate a harmony of interests between the private concerns of individuals. Some economizing action will always be intersubjectively motivated; some public sphere will always remain. Normative social programs must inquire into the ability of institutions to direct creative human activity towards generating desirable outcomes *across* the commons (between private spheres), *within* the commons, and *between* the private and public spheres. The two outstanding criteria for making such comparisons are the knowledge-generating properties and selection mechanisms of different institutions. These are objective features of social systems that carry normative import. Fortunately, Wagner picks up on both.

A key difference between market enterprises and state enterprises is the ability of the former to engage in economic calculation (chaps. 4–5). The combination of money prices and residual claimancy generates both the means and the motivation to discover lower cost methods of production. Private enterprise thus tends to generate knowledge relevant to serving

[1]Chapter 8 is dedicated to normative considerations, but only after the positive theory of the state is laid out.

man's purposes. State enterprises, by contrast, lack a bottom line against which to judge the efficacy of various means. Thus, they need not survive by their ability to discover efficacious means to serving their ends or the ends of those they interact with. They can instead rely on tax revenues, the imposition of onerous regulations on competitors, or forcing rivals out of the market outright. State enterprises thus frequently do more to stifle innovation and discovery than promote it. Given this crucial difference between public and private enterprises, the balance between the two will substantially impact social prosperity.

The second criterion for drawing out differences between systems which economists can analyze is the way that different institutions select for certain character traits. By selection, I mean both sorting for traits and inculcating them. The seminal Austrian argument in this vein is chapter 10 of *The Road the Serfdom*, which explains "Why the Worst Get On Top" in bureaucratic organizations (Hayek 1944). But while Hayek is primarily concerned with how unscrupulous bureaucrats will use their power, Wagner's foray into normative considerations (chap. 8)—motivated by dissatisfaction with the static, systems-design orientation of Paretian welfare economics—also raises the possibility of character formation as an important normative criterion for evaluating institutions. His conclusions complement Hayek's:

> Public squares and private squares each derive from human nature. That nature is complex, and contains both good and bad, beautiful and ugly. There is no doubt that the market square can accommodate plenty of badness and ugliness. Yet the conventions of private property surely limit the reach of that badness and ugliness. While the activities of the public square emerge out of our natures, the grammar by which the public square must operate gives special play to the bad and ugly side of the Faustian bargain that necessarily accompanies the use of force in human relationships. (p. 202)

With this in mind, Wagner's framework may help clarify the relevant libertarian questions:

- The classical liberal question: Where should the boundary be drawn between the commons and the sphere of individual autonomy?

- The libertarian question: What are the dangers of a nexus of hierarchically organized governmental enterprises dominating the commons?

- The anarchist question: Should such a nexus exist at all?

- The anarcho-capitalist question: Can the feedback generated by market processes improve the legal stewardship of the commons?

Fiscal Sociology and the Theory of Public Finance merits the serious attention of scholars interested in public economics, Austrian economics, and libertarianism alike. Its dual-forum, entrepreneurial framework is fertile ground in which theoretical and applied research alike can take root. The good news for young scholars seeking inspiration is that its ideas tend to be more under- than over-developed; I have only touched on a few of them here. One notable omission is the comparison of legislatures to investment banks that must select which public enterprises to support (pp. 110–13), an idea begging for substantial empirical investigation. Perhaps the greatest compliment that can be paid to a scholarly project is that it contributes to the work of future scholars. Wagner's book certainly has the potential to make many such contributions.

ADAM MARTIN

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